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AGENDA ITEM 3

POSITION STATEMENT - MANITOBA

CONFIDENTIAL

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ECONOMIC STABILIZATION FUND

SINCE THE PREMIER OF QUEBEC FIRST PRESENTED HIS SUGGESTION FOR AN ECONOMIC STABILIZATION FUND AT A MEETING OF MINISTERS OF FINANCE IN WINNIPEG IN EARLY JUNE OF THIS YEAR, THE GOVERNMENT OF MANITOBA HAS BEEN STUDYING HIS PROPOSAL WITH PARTICULAR INTEREST.

I CAN SAY WITHOUT HESITATION THAT MANITOBA SUPPORTS THE GENERAL CONCEPT OF PROVIDING SHORT-TERM ASSISTANCE TO ENABLE PROVINCES TO MAINTAIN THEIR ESSENTIAL ECONOMIC AND SOCIAL DEVELOPMENT EXPENDITURES, DURING PERIODS WHEN ECONOMIC CONDITIONS AND NATIONAL POLICIES MIGHT HAVE UNEVEN AND DETRIMENTAL EFFECTS ON THEIR ABILITY TO DO SO.

IT IS AGREED THAT THE PRESENT REVENUE STABILIZATION PROVISIONS INCORPORATED IN THE FISCAL ARRANGEMENTS ACT MAY BE OF ONLY MINIMAL VALUE IN ESPECIALLY SEVERE CIRCUMSTANCES AND THEN ONLY AFTER RATHER LENGTHY AND POTENTIALLY DAMAGING DELAYS. INCREASED EQUALIZATION PAYMENTS MIGHT BE MORE HELPFUL, BUT UNDER THE PRESENT ARRANGEMENTS THEY CAN BE SUBJECT TO EVEN LONGER DELAYS, AND FURTHERMORE, THEIR MAGNITUDE WOULD BE IN PART RESTRICTED BY THE SAME WEAKENING IN ECONOMIC AND REVENUE CONDITIONS WHICH THEY WERE INTENDED TO HELP OFFSET. A DOWNTURN IN TOTAL PROVINCIAL REVENUES WILL RESULT IN A DOWNTURN IN TOTAL EQUALIZATION PAYMENTS. EQUALIZATION SHOULD NOT BE CONFUSED WITH STABILIZATION. ONE IS AIMED AT LONGER TERM PROBLEMS - THE OTHER AT SHORT TERM CONDITIONS.

WHILE WE ENDORSE THE GENERAL PRINCIPLE OF STABILIZATION TO SUPPLEMENT AND INSURE EXISTING PROGRAMMES, MANITOBA BELIEVES THAT SOME OF THE TECHNICAL ASPECTS OF THE QUEBEC PROPOSAL REQUIRE FURTHER EXAMINATION. WE ARE NOT SATISFIED THAT AVAILABLE UNEMPLOYMENT AND POPULATION DATA WILL PROVIDE THE MOST APPROPRIATE CRITERIA FOR DETERMINING EITHER THE TIMING OF A STABILIZATION MOVE OR A REASONABLE ALLOCATION OF STABILIZATION FUNDS. IF WE MOVE AT THE WRONG TIME TO

STABILIZE, OR ON THE WRONG CRITERIA, WE COULD ACTUALLY "DE-STABILIZE" BY CREATING EVEN MORE IMBALANCED SPENDING IN ONE PLACE - AGAINST THE NEEDS OF OTHER WEAKER AREAS. AND CERTAINLY WE DON'T WANT TO "STABILIZE" AT HIGH UNEMPLOYMENT LEVELS, YET THAT COULD WELL HAPPEN IF WE DID NOT ATTACK PROBLEMS OF UNEMPLOYED OR BADLY ALLOCATED RESOURCES BEFORE HIGH RATES OF DISLOCATION APPEARED.

WE ARE CONCERNED ABOUT ATTEMPTS IN THE QUEBEC ANALYSIS TO DRAW A DISTINCT SEPARATION BETWEEN CYCLICAL AND STRUCTURAL PROBLEMS. WE FEEL THAT THE TWO FACTORS ARE OFTEN CLOSELY RELATED - PARTICULARLY IN RESPECT OF UNEMPLOYMENT - AND THAT THIS INTER-RELATIONSHIP SHOULD BE RECOGNIZED IN THE METHOD OF FUND ALLOCATION WHICH EVENTUALLY MIGHT BE RECOMMENDED. IF WE ARE NOT CAREFUL IN OUR APPLICATION OF ANY STABILIZATION TECHNIQUE, THE REAL ECONOMIC STABILITY FOR PEOPLE AND COMMUNITIES WE SEEK MAY BE DENIED. FOR EXAMPLE, IF WE DO NOT MOVE FUNDS INTO DEVELOPMENT UNTIL CYCLICAL CRISES PRECIPITATE SUCH ACTION, WE WOULD FAIL TO DEAL WITH THE STRUCTURAL ROOTS OF PROBLEMS. THIS TREATMENT OF SYMPTOMS RATHER THAN CAUSES HAS BEEN A MARKED WEAKNESS OF MUCH TRADITIONAL POLICY ON INFLATION.

REAL STABILITY MUST RELATE TO REAL INCOME. AN INCOMES POLICY WITH EFFECTIVE DEVELOPMENT SUPPORT THROUGH MANPOWER AND RESEARCH AND RELATED TRAINING PROGRAMMES OFFERS REAL STABILIZATION FOR A CHRONICALLY WEAK ECONOMY - REGIONAL OR NATIONAL. EMERGENCY FUNDS FLOWING OR EBBING WITH THE TIDE OF CRISIS OFFER LITTLE ASSURANCE THAT THE CRISIS WON'T RETURN - WORSE THAN EVER. AN ECONOMIC DOWNTURN IS MORE THAN A TEMPORARY EMBARRASSMENT - IT REVEALS SUBSTANTIVE WEAKNESS IN BOTH THE STRUCTURAL AND THE CURRENT CAPACITY OF AN ECONOMY.

WE MUST NOT EXPECT THAT WE CAN DO THINGS BETTER FOR PEOPLE WITH UNCONDITIONAL MONEY TRANSFERS IN A PERIOD WHEN THE ECONOMY IS SLACK WHEN WE HAVE FAILED TO DEAL WITH WEAKNESS IN INCOMES, OPPORTUNITIES AND SOCIAL STABILITY WHEN TIMES WERE GOOD. THAT IS ONE OF THE WEAKEST ASPECTS OF SO

MANY "MONEY SCHEMES" FOR STABILIZATION - THEY ARE TOO LATE AND WE LOSE GROUND WE MAY HAVE GAINED BEFORE THE ECONOMY SLID OFF THE HIGH ACTIVITY PEAK.

WE WOULD ALSO QUESTION THE REAL VALUE OF A STABILIZATION FUND FOR PROVINCES SUCH AS MANITOBA IF IT WERE TO BE SET UP EXACTLY AS PROPOSED. THE FORMULA SUGGESTED FOR THE ALLOCATION OF AVAILABLE FUNDS WOULD HAVE PROVIDED NO UNCONDITIONAL GRANTS FOR MANITOBA IN 1970. THE SMALL LOW INTEREST LOAN WHICH WOULD HAVE BEEN AVAILABLE TO OUR PROVINCE IN 1970 WOULD HAVE BEEN LESS THAN HALF AS LARGE AS THE AMOUNT WE ARE REQUIRED TO REPAY THIS YEAR TO THE GOVERNMENT OF CANADA IN RESPECT OF AN ADJUSTMENT UNDER THE FISCAL ARRANGEMENTS ACT.

I VENTURE TO SAY THAT SEVERAL OTHER PROVINCES WOULD FIND THE ASSISTANCE LEVELS PROVIDED BY THE PROPOSED STABILIZATION FUND ALLOCATION FORMULA TO BE OF NEGLIGIBLE VALUE - AT LEAST IN THE FIRST FEW YEARS OF THE OPERATION OF THE FUND. ADMITTEDLY, HOWEVER, ONCE THE FUND IS IN FULL OPERATION - AFTER FOUR OR FIVE YEARS PERHAPS - THE AMOUNTS AVAILABLE TO THE PROVINCES MIGHT BE FAR MORE BENEFICIAL.

BUT MANITOBA EMPHASIZES AGAIN - WE CANNOT ACCEPT A CONCEPT OF "STABILIZATION" AT LESS THAN FULL EMPLOYMENT, NOR DO WE BELIEVE IT SOUND TO TRY TO CORRECT ERRORS IN NATIONAL POLICY BY PROVINCIAL ACTIONS, ESPECIALLY WHEN THESE EFFORTS ARE LIKELY TO BE FUNDED AT THE EXPENSE OF OTHER FEDERAL PROGRAMMES WHICH OUGHT TO BE MAINTAINED OR INCREASED. THE RECENT HISTORY OF ECONOMIC ADJUSTMENT ATTEMPTS BY WAY OF FEDERAL BUDGET CUTS IN THE VERY PROGRAMMES SUPPORTING ECONOMIC DEVELOPMENT IN THE REGIONS IS STILL TOO CLEARLY IN VIEW. ARE WE GOING TO CORRECT TROUBLE OR CAUSE MORE BY FURTHER MEASURES FOR SO-CALLED STABILIZATION? IF THE STABILIZATION FUND BECAME ANOTHER EXCUSE TO DO LESS OR NOTHING IN THE AREA OF SOCIAL EQUITY IN CANADA - IT WOULD BE COMPOUNDED FOLLY.

THUS WE EMPHASIZE THAT WE WOULD WANT TO ENSURE THAT THE FINANCING AND OPERATION OF AN ECONOMIC STABILIZATION FUND WOULD NOT HINDER THE FEDERAL GOVERNMENT IN FULFILLING ITS RESPONSIBILITIES UNDER THE EXISTING FISCAL ARRANGEMENTS AND SHARED-COST AGREEMENTS. WE WOULD WANT TO KNOW THAT DIVERSION OF FUNDS FROM TAX REVENUES TO BUILD THE FUND AND REPLENISH IT DID NOT ACTUALLY WEAKEN THE ECONOMY AND EFFORTS TO STRENGTHEN IT. IF WE "SAVE" TO FINANCE "STABILIZATION" WE MAY BE DOING SO AT THE EXPENSE OF NEEDED DEVELOPMENT - BOTH PUBLIC AND PRIVATE.

THE QUEBEC PROPOSAL MUST ALSO BE EXAMINED ALONGSIDE WHATEVER SPECIFIC MEASURES MAY BE SUGGESTED BY THE GOVERNMENT OF CANADA AS A MEANS OF MAINTAINING PROVINCIAL REVENUE LEVELS UNDER A REFORMED TAX SYSTEM. IT MAY BE REMEMBERED THAT SOME FORM OF PROVINCIAL REVENUE STABILIZATION - FOR INCOME TAXES, AT LEAST - WAS PROMISED IN THE WHITE PAPER.

THERE ARE NUMEROUS OTHER TECHNICAL POINTS WE MIGHT RAISE AS WELL. WE REALIZE THAT THE PROPOSAL IS STILL IN ITS FORMATIVE STAGES AND, IN ANY CASE, I THINK I AM CORRECT IN RECALLING THAT THE FIRST MINISTER OF QUEBEC MADE IT CLEAR IN HIS INITIAL STATEMENT ON THIS SUBJECT TO THE MINISTERS OF FINANCE IN WINNIPEG THAT HIS GOVERNMENT WAS QUITE WILLING TO CONCEDE THAT MANY POSSIBLE ALTERNATIVE FORMULAE EXISTED - HE WISHED SIMPLY TO ADVANCE SOME SPECIFIC IDEAS IN ORDER THAT CONSIDERATION OF THE PROPOSAL MIGHT BEGIN AT ONCE.

THIS IS SOUND. MANITOBA HAS MANY TECHNICAL QUESTIONS IT BELIEVES MUST BE CAREFULLY CONSIDERED LEST WE BUY AN ASPIRIN FOR A HEADACHE WE COULD HAVE PREVENTED BY OTHER MEANS. WE HAVE ALREADY INDICATED QUESTIONS ON THE CRITERIA FOR PUTTING A STABILIZATION TRANSFER OF MONEY IN MOTION:

- a) WHEN, ACTUALLY, SHOULD WE START THE ALTERNATIVE SPENDING?
- b) WHAT CRITERIA OTHER THAN RAW UNEMPLOYMENT DATA WOULD BETTER - CERTAINLY MORE EQUITABLY - SERVE THE NEEDS OF REGIONS OTHER THAN THOSE SHOWING HIGH BUT UNREFINED NUMBERS OF JOBLESS WORKERS?

- c) HOW LARGE WOULD THE FUND HAVE TO BE TO MAKE SIGNIFICANT IMPACT - EQUITABLY - FOR ALL AREAS CONCERNED?
- d) WHAT COST WOULD THE ECONOMY HAVE TO SUSTAIN, FIRST IN CREATING THE FUND, THEN IN WAITING FOR IT TO BE APPLIED, AND FINALLY IN REBUILDING IT?
- e) WHAT WOULD THE REAL EFFECTS BE ON REGIONAL DISPARITIES - ON REGIONAL GROWTH AS AMONG THE WEAKER AND STRONGER PROVINCES?
- f) IS "EQUALIZATION" REALLY AN APPROPRIATE MEANS TO ACHIEVE SHORT TERM STABILIZATION?
- g) WHAT ARE WE REALLY TRYING TO "STABILIZE" - A WEAK LEVEL OF ACTIVITY SHOWING CRISIS NUMBERS OF JOBLESS - OR A SOUND ECONOMY IN WHICH FULL EMPLOYMENT AT ADEQUATE LEVELS OF REAL INCOME CAN ASSURE US OF STRENGTH TO AVOID CRISIS?

THERE ARE MANY MORE POINTS TO RESOLVE - BUT, THE QUEBEC PROPOSAL IS IMAGINATIVE; IT IS SUBSTANTIVE AND EXPLICIT. IT DESERVES CAREFUL AND PROMPT EXAMINATION BY THE BEST QUALIFIED PEOPLE. THEREFORE, IT WOULD BE OUR SUGGESTION THAT THE PROPOSAL BE REFERRED ONCE MORE TO THE MINISTERS OF FINANCE AND THEIR OFFICIALS FOR FURTHER STUDY. I UNDERSTAND THAT THIS MATTER IS ALREADY BEING EXAMINED IN DETAIL BY THE CONTINUING COMMITTEE ON FISCAL AND ECONOMIC MATTERS, SO PERHAPS IT WOULD NOT BE UNREASONABLE FOR US TO REQUEST THAT THE MINISTERS OF FINANCE REPORT TO US ON A SUGGESTED MEANS OF IMPLEMENTING AN ECONOMIC STABILIZATION FUND AT OUR NEXT PLENARY SESSION, OR SOONER, IF AT ALL POSSIBLE.

